

# ASIAN DEVELOPMENT BANK'S EQUITY INVESTMENTS IN SOUTH ASIA: CASE STUDIES IN INDIA AND BHUTAN

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*This article discusses equity investments of the Asian Development Bank ('ADB' or 'the Bank') in South Asia, with primary reference to India and Bhutan. It considers ADB's financing of private sector operations, including equity investments. It also focuses on case studies of equity investments in three commercial banks, namely, Centurion Bank Limited ('CBL') and Global Trust Bank Limited ('GTB') in India, and Bhutan National Bank ('BNB') in Bhutan. The issues and challenges in project implementation are analysed. The salient lessons learned by the Bank in these equity investments are discussed by analysing the Bank's project completion reports and evaluations. The participation by the International Finance Corporation, a member of the World Bank Group focused on private sector operations, in its investments in CBL, GTB and BNB is also discussed. The article concludes with lessons learned by the Bank with suggestions on how the Bank can better enhance its participation in equity investment operations in its member countries.*

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## I. INTRODUCTION

This article discusses equity investments of the Asian Development Bank ('ADB or the Bank') in South Asia, with primary reference to India and Bhutan. The ADB is an International Financial Institution ('IFI') focused on the Asia-Pacific region with its mission of reducing poverty through financing both sovereign operations (public sector) and non-sovereign operations (private sector) such as loans, equity investments, and guarantees. The three commercial banks under study are Centurion Bank Limited ('CBL') and Global Trust Bank Limited ('GTB') in India, and Bhutan National Bank ('BNB') in Bhutan. These banks have been selected as they offer interesting perspectives on co-financing from the International Finance Corporation ('IFC'), a member of the World Bank Group focused on private sector operations and the ADB, with investments in these banks being made at around the same time. The objective of this article is to demonstrate that notwithstanding the relatively small amounts invested, of about USD 10 million, these were instrumental for the ADB to provide support in furtherance of the Bank's mandate and also to stimulate the private sector and promote economic development.

The paper is divided into seven parts. Part II talks about ADB's financing of private sector operations ('PSOs'), which includes equity investments. Part III refers to ADB's equity investments in CBL and GTB in India. It goes on to analyse the issues and challenges in project implementation, including the findings in the project completion reports. Part IV refers to ADB's equity investment in BNB in Bhutan and similarly analyses the issues and challenges in project implementation, including the findings in the project completion report. Part V provides an overview of the documents relied on for conducting the study. Part VI summarises the salient lessons learned by ADB through these three equity investments from the Bank's project completion reports and evaluations. It also discusses the participation by the IFC in its investments in CBL, GTB and BNB, and the practice in other IFIs such as the European Bank for Reconstruction and Development ('EBRD') which is also focused on private sector lending.<sup>1</sup> The final part, Part VII, highlights suggestions on how the Bank can better enhance its participation in equity investments in its member countries.

## II. ADB'S PRIVATE SECTOR OPERATIONS

ADB was founded in 1966 and is focused on sovereign operations in the public sector, with its mandate of poverty reduction. Similar mandates are followed in other IFIs such as the World Bank, IFC, and regional development banks like the Inter-American Development Bank ('IDB'). The ADB began its PSOs in 1983 and its private sector transactions, which includes loans, equity investments,

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<sup>1</sup> European Bank for Reconstruction and Development ('EBRD's') focus is on private sector lending with 60% under its constitution but currently 80% of lending operations.

and guarantees, have risen over the years from a modest six percent of ADB approvals of operations in the year 2000 to seventeen percent of ADB approvals in 2006.<sup>2</sup> In 2016, ADB approved USD 14.97 billion for sovereign operations (loans, grants, and guarantees) and approved USD 2.5 billion to support non-sovereign operations (loans, equity, and guarantees).<sup>3</sup> Although PSOs still form an overall small part of ADB's lending operations (about seventeen percent), they are increasingly important in ADB operations. For instance, in ADB's Strategy 2020, engagement with the private sector is one of the five drivers of change, and the Bank's role in supporting the private sector is to promote growth and to broaden access to economic opportunities while at the same time promoting environmental sustainability.<sup>4</sup> These priorities were reaffirmed by the midterm review of Strategy 2020, completed in 2014.<sup>5</sup> In 2016, equity investment accounted for three percent of ADB approvals for PSOs (about USD 450 million) and one percent for guarantees, with the remaining ninety six percent for loans.<sup>6</sup> While equity investments admittedly constitute a much smaller proportion of ADB approvals as compared to lending, they serve the distinct purpose of playing a catalytic role in the economic development of their member countries, as will be established by the case studies in this article.

The Bank's equity investments in CBL and GTB in 1994 were viewed as an opportune time for the Bank to support the steps taken by the Government of India ('GoI') in the 1990s in reform packages to accelerate economic growth and develop the financial sector. In 1993, the GoI, through the Reserve Bank of India ('RBI'), published guidelines for issuing licenses for new banks for the first time in 40 years and by May 1994, the RBI had granted 'in principle' licenses to ten out of 137 applicants to operate as commercial banks.<sup>7</sup> Prior to 1996, Bhutan had only

<sup>2</sup> ASIAN DEVELOPMENT BANK - OPERATIONS EVALUATION DEPARTMENT, Special Evaluation Study on Private Sector Development and Operations: Harnessing Synergies with the Public Sector, 4 (May 2007) (OED was renamed Independent Evaluations Department ('IED') in 2009. The evaluations department reports to the Bank's board of directors, and not to the Bank's management).

<sup>3</sup> ASIAN DEVELOPMENT BANK, Statement of Asian Development Bank's Operations in 2016, 2 (March 2017), available at <https://www.adb.org/sites/default/files/institutional-document/234006/in59-17.pdf> (Last visited on January 20, 2022).

<sup>4</sup> ASIAN DEVELOPMENT BANK, Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 14 (2008).

<sup>5</sup> ASIAN DEVELOPMENT BANK, Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific, iii (2014).

<sup>6</sup> ASIAN DEVELOPMENT BANK, DEVELOPMENT EFFECTIVENESS REPORT 2016: PRIVATE SECTOR OPERATIONS, 9 (2017), available at <https://www.adb.org/sites/default/files/institutional-document/300751/defr-private-sector-2016.pdf> (Last visited on January 20, 2022).

<sup>7</sup> ASIAN DEVELOPMENT BANK, REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE BOARD OF DIRECTORS ON PROPOSED EQUITY INVESTMENTS IN TWO NEW COMMERCIAL BANKS IN INDIA, ¶8 (1994) (References in this article to this Report and other similar ADB reports such as the Bank's equity investment in BNB and project completion reports are from the redacted reports provided by the Bank pursuant to its public communications policy (2011) as these reports cover ADB's non-sovereign operations and the ADB staff was waiting for guidance given the confidential business information contained in these documents. ADB provided to the author abbreviated versions of the documents approved by ADB's Board of Directors and excludes information that is subject to exceptions to disclosure in accordance with ¶97(v) and (viii) relating to confidential business

one commercial bank, the Bank of Bhutan. With the inauguration of the BNB as the second commercial bank, the competition was brought to the market. ADB's investment in BNB was viewed crucial for the Bank to "play a catalyst role in the privatisation of State-owned financial institutions" as part of the Financial Sector Intermediation Facility ('FISIF') provided by the Bank to the Royal Government of Bhutan ('RGoB') in bringing about "strong private sector growth so that the economic growth of the country can be accelerated".<sup>8</sup> FISIF was a sector development program for Bhutan that included the BNB equity investment to assist the government in improving access to credit by the private sector and creating a supportive environment for private sector business activities.

### III. ADB'S EQUITY INVESTMENTS IN CENTURION BANK LIMITED AND GLOBAL TRUST BANK LIMITED

Out of the 137 applicant institutions which applied to the RBI to operate as commercial banks in the GoI's acceleration of the economic and financial reform programme in the 1990s, only ten were given 'in principle' approval by the RBI to operate as commercial banks. Out of these, five were sponsored by public sector financial institutions, one was a joint venture between private concerns and a state government, and four were private sector parties. ADB chose to participate in two of the ten new commercial banks as they satisfied the following six considerations: (i) no governmental or quasi-governmental entity as a sponsor, (ii) acceptability of the sponsor in terms of reputation, previous experience, and professionalism, (iii) strategies and plans with a focus on industry and export promotion, (iv) interest by the sponsor in the bank's participation, (v) catalytic role for the bank in helping mobilise other investors and (vi) consistency with the bank's policies and strategies for India.<sup>9</sup>

The justification for ADB's participation in the project with its investments in these two commercial banks was based on the following five factors: (i) the Bank continuing its policy dialogue with the GoI to open the financial sector to competition, enhance efficiency, and reduce costs of borrowing., (ii) the Bank would play a catalytic role with demonstrational effect as its participation would assure both domestic and foreign investors that the investee companies are credible, and that there would less likely be arbitrary and non-commercial intervention or regulatory discrimination, (iii) the investee companies would enhance

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information and financial information, respectively of ADB's Public Communications Policy 2011).

<sup>8</sup> ASIAN DEVELOPMENT BANK, REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE BOARD OF DIRECTORS ON PROPOSED LOANS AND TECHNICAL ASSISTANCE GRANT TO THE KINGDOM OF BHUTAN AND A PROPOSED EQUITY INVESTMENT IN BHUTAN NATIONAL BANK IN THE KINGDOM OF BHUTAN FOR THE FINANCIAL SECTOR INTERMEDIATION FACILITY, ¶¶39, 40 (1997).

<sup>9</sup> ASIAN DEVELOPMENT BANK, *Report and Recommendation of the President to the Board of Directors on Proposed Equity Investments in Two New Commercial Banks in India*, ¶16 (1994).

competition in India's financial service sector by providing better and more responsive service for industry and exporters, (iv) these investee companies would focus on trade, exports, and other services which would enhance links to world markets, and contribute to greater competitiveness internationally, and (v) the bank was creating positive advocates for change that would continue the Gol's process of liberalisation and modernisation.<sup>10</sup>

### A. INVESTMENT IN CENTURION BANK LIMITED

In the case of CBL, ADB invested in 1995 about USD 4.75 million in 14,850,000 equity shares of the investee company, and in 1995, IFC also invested in the equity of the investee company. As of December 31, 1995, ADB and IFC had 4.20 percent and 3.44 percent shareholding of the company, respectively.<sup>11</sup> In 1988, with the merger of CBL and 20th Century Finance Corporation Limited ('TCFC'), the main sponsor of Centurion, in 1998, ADB received 733,333 equity shares of CBL in exchange for its 733,333 equity shares of TCFC and ADB's then outstanding term loan of USD 10 million to TCFC became an obligation of CBL. ADB found that while it "played a constructive and active role on the board of directors, as a minority shareholder, ADB could not control CBL's operations".<sup>12</sup> ADB had a nominee director on CBL's board of directors, but it had limitations on exercising good corporate governance on CBL as a minority shareholder. Nevertheless, it played a constructive and active role on the board with the ADB nominee director discussing issues such as discouraging the practice of nominating family members to sensitive positions and the dominance of the chair as the single largest shareholder in the decision-making process.<sup>13</sup>

Consequently, two important lessons were learned from this equity investment. First, ADB and IFC initiated a dialogue with CBL's board of directors and shareholders, highlighting the need to "induct a strong strategic partner"<sup>14</sup> to play an active role in the management and corporate governance of CBL as it had just started operations. Second, that ADB needed to look at its exit strategy in the investee company, such as, instead of holding on to its investment for a longer

<sup>10</sup> ASIAN DEVELOPMENT BANK, *Report and Recommendation of the President to the Board of Directors on Proposed Equity Investments in Two New Commercial Banks in India*, ¶29 (1994).

<sup>11</sup> INTERNATIONAL FINANCE CORPORATION ('IFC') PROJECT INFORMATION & DATA PORTAL, Summary of Project Information Project Number 7512 for Centurion Bank of Punjab Limited, available at <https://disclosures.ifc.org/project-detail/SPI/7512/20th-century> (Last visited on January 20, 2022) (IFC also had a USD 30 million loan proposed to TCFC to support its program of funding small and medium-sized enterprises, especially those with significant exports, as well as other companies with small infrastructure-related projects. In 2005, the boards of directors of Centurion Bank Limited and Bank of Punjab agreed to a merger of the two banks and the merged bank was called Centurion Bank of Punjab Limited).

<sup>12</sup> ASIAN DEVELOPMENT BANK, Project Completion Report for Centurion Bank Limited in India: Project Investment Number 7103, ¶12 (December 2001).

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*, ¶17 (The terms 'strategic investor' and 'strategic partner' are used interchangeably in the same paragraph).

time, consider exiting progressively within twelve to eighteen months of the listing of the equity if ADB's objective in the investment was achieved as this would result in the more effective deployment of ADB funds.<sup>15</sup>

In February 2001, ADB approved an additional equity investment of up to USD 2 million to acquire additional 7,750,000 shares in CBL, under a rights issue to existing shareholders, for two purposes. First, it would enable ADB to maintain its representation in CBL's board of directors (which required a minimum shareholding of 7.5 percent, and with this additional investment, ADB's shareholding in CBL would be nine percent of CBL's shares. Second, ADB's involvement would reinforce its 'catalytic developmental role' (as CBL was still one of the smallest banks in India and needed further assistance) and ADB's participation in the rights offer would "better enable ADB to assist CBL to attract a strong strategic partner".<sup>16</sup>

Before August 2003, IFC sold 5.54 percent equity holding in CBL and in August 2003, IFC diluted its equity stake in CBL from 8.6 percent to 2.72 percent after it declined to participate in CBL's proposed capital restructuring programme for the reason given by CBL's Chairman and Managing Director V. Janakiraman that IFC did "not want to commit itself for the restructuring of the bank".<sup>17</sup> In August 2003, IFC's shareholding in CBL was 2.72 percent while ADB had a 10.22 percent equity holding in CBL.<sup>18</sup> In ADB's additional equity investment in CBL in 2001, ADB identified its exit in CBL to be either through the stock exchange or to a strategic investor. If a strategic investor were difficult to find, ADB would likely sell its holdings gradually over the next five years through the stock exchange.<sup>19</sup> In 2005, ADB divested its equity investment in CBL, which indicated the difficulty of finding a suitable strategic investor.

## *B. INVESTMENT IN GLOBAL TRUST BANK LIMITED*

In the case of GTB, in 1994, ADB invested about USD 3.2 million in ten million equity shares of the company. ADB's investment in GTB was timely as it enabled GTB to commence operations ahead of most of the other commercial banks which were licensed together with GTB. ADB's project document identified IFC as a shareholder (together with ADB) with pre-allotment of shares in GTB's

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<sup>15</sup> *Id.*, ¶27.

<sup>16</sup> ASIAN DEVELOPMENT BANK, Report on the Approval by the President of an Additional Equity Investment under a Rights Issue in Centurion Bank Limited in India: Project Investment Number 7103, ¶¶11-12 (February 2001).

<sup>17</sup> THE FINANCIAL EXPRESS, IFC Dilutes Equity Stake in Centurion Bank to 2.72%, August 30, 2003, available at <http://www.financialexpress.com/archive/ifc-dilutes-equity-stake-in-centurion-bank-to-272/91051/> (Last visited on January 20, 2022).

<sup>18</sup> *Id.*

<sup>19</sup> ASIAN DEVELOPMENT BANK, Report on the Approval by the President of an Additional Equity Investment under a Rights Issue in Centurion Bank Limited in India: Project Investment Number 7103, ¶15 (February 2001).

shareholding.<sup>20</sup> Both ADB and IFC had the same shareholding of about 9.6 percent of the share capital, with IFC also providing a loan of up to USD ten million to GTB to provide trade finance and project finance to small and medium-sized private sector companies in India, mainly in the exports sector.<sup>21</sup> ADB's project completion report found that "GTB experienced rapid growth, (considered risky initially), in its early years, surpassing projections and maintaining a moderate capital adequacy ratio".<sup>22</sup> In contrast to its experience in CBL, ADB found that it "played a significant role in persuading and helping GTB adopt modern corporate governance practices" as well as it "introduced cross-fertilisation of ideas among clients of ADB's Private Sector Group ('PSG'),<sup>23</sup> resulting in the institution of a formal code of corporate governance in GTB".<sup>24</sup> ADB also had a nominee director in GTB who recommended that GTB consider merging with another commercial bank as there was "a need for consolidation to achieve economies of scale and scope in the banking business" and the Project Completion Report ('PCR') noted that subsequent to ADB's disinvestment of the whole of its equity in GTB in April, 2000, GTB considered a merger with UTI Bank but withdrew from the merger proposal.<sup>25</sup> On IFC's investment in GTB, it held about 12.4 percent of GTB's shares before December 2000, and it divested its shareholding in 2001 and 2003, with its stake remaining at 7.77 percent in June 2003.<sup>26</sup>

After ADB's participation in GTB's equity and GTB's success in its early years of operations, there were problems in GTB's operations which resulted in the GoI imposing a moratorium on GTB in July 2004 on the grounds of 'wrong financial disclosures',<sup>27</sup> and later in 2004, RBI announced that GTB would be merged with the Oriental Bank of Commerce, a Delhi-based public sector bank.<sup>28</sup>

<sup>20</sup> ASIAN DEVELOPMENT BANK, Report and Recommendation of the President to the Board of Directors on Proposed Equity Investments in Two New Commercial Banks in India, ¶8 (1994) (The investment proposal summary for CBL had no inclusion of IFC as the preallotment was only to ADB).

<sup>21</sup> IFC PROJECT INFORMATION & DATA PORTAL, Summary of Project Information Project Number 7512 for Centurion Bank of Punjab Limited, available at <https://disclosures.ifc.org/project-detail/SPI/7512/20th-century> (Last visited on January 20, 2022).

<sup>22</sup> ASIAN DEVELOPMENT BANK, Project Completion Report for Global Trust Bank Limited in India: Project Investment Number 7104, ¶17 (June 2001).

<sup>23</sup> From 1986 to the present, ADB has seen several organizational changes on the focal point in the delivery of PSOs with the result that there is now a dedicated Private Sector Operations Department ('PSOD'). In 1986, ADB established a Private Sector Division to act as a focal point for all PSOs. In 1989, the Private Sector Division was transformed into the Private Sector Department to better support non-sovereign operations across the Bank. In 1992, the Private Sector Unit replaced the Private Sector Department, which became the Private Sector Group (PSG) in 1995. The PSG was converted into the present PSOD in 2001, with the adoption of a new Private Sector Development Strategy by the Bank in 2000.

<sup>24</sup> ASIAN DEVELOPMENT BANK, Project Completion Report for Global Trust Bank Limited in India: Project Investment Number 7104, ¶20 (June 2001).

<sup>25</sup> *Id.*, ¶28.

<sup>26</sup> REDIFF, IFC SELLS 2.61% GLOBAL TRUST SHAREHOLDING, September 2, 2003, available at <http://www.rediff.com/money/report/ifc/20030902.htm> (Last visited on January 20, 2022).

<sup>27</sup> Vivek Gupta & Yamini Aparna, *The Rise and Fall of Global Trust Bank*, IBS CENTER FOR MANAGEMENT RESEARCH I (2005).

<sup>28</sup> *Id.*, 6.

Notwithstanding the above events, after ADB's divestment in 2000, ADB played a positive role in investing in GTB, such as assisting it to implement an appropriate code of corporate governance whereby GTB was "acknowledged to be the first Indian bank to bring out a formal code of corporate governance".<sup>29</sup>

#### IV. ADB'S EQUITY INVESTMENT IN BHUTAN NATIONAL BANK

The justification for ADB's investments in BNB in 1997, three years after its investments in CBL and GTB, was similar. The justification was based on the following five factors: (i) the Bank continuing its policy dialogue with the RGoB to open the financial sector to competition, enhance efficiency, and reduce the costs of borrowing, (ii) the Bank would play a catalytic role with demonstrational effect as its investment would bring in an equal investment from a foreign bank, and the Bank's participation would assure both domestic and foreign investors that the investee company is credible, and that there would less likely be arbitrary intervention into normal business by the RGoB, (iii) BNB would be in a better position to compete in Bhutan's financial service sector by providing better and more responsive services for the private sector, (iv) with the participation of a foreign commercial bank, BNB would be in a better position to focus on trade, exports, and foreign exchange and (v) by converting BNB to a private sector institution operated by professionals, the Bank would be creating positive attitudes for change to support the RGoB's continuation of the reform process and liberalisation of the financial sector.<sup>30</sup>

ADB's investment in BNB was up to the equivalent of BNB's paid-up share capital of USD 790,000, and in the event of a foreign bank joining ADB as a strategic investor,<sup>31</sup> the Bank's investment would be reduced from twenty-five percent to twenty percent of BNB's paid-up share capital of about USD 640,000. When the Bank bought the shares of BNB, its interest in the company represented 20.1 percent of the paid-up capital as Citicorp Investment Bank (Singapore) Ltd. ('Citicorp') joined ADB as a 'strategic foreign investor' with a shareholder agreement among the RGoB, Citicorp, and ADB holding 161,984 shares, 118,413 shares, and 119,603 shares, respectively and a subscription agreement giving ADB and Citicorp representation on BNB's board of directors.<sup>32</sup>

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<sup>29</sup> ASIAN DEVELOPMENT BANK, Project Completion Report for Global Trust Bank Limited in India: Project Investment Number 7104, ¶16 (June 2001).

<sup>30</sup> ASIAN DEVELOPMENT BANK, Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to the Kingdom of Bhutan and a Proposed Equity Investment in Bhutan National Bank in the Kingdom of Bhutan for the Financial Sector Intermediation Facility, ¶¶87-91 (1997).

<sup>31</sup> *Id.*, The term 'strategic investor' was used for information on the Bank's equity investment in the "Loan and Program Summary".

<sup>32</sup> ASIAN DEVELOPMENT BANK, Project Completion Report for Bhutan National Bank in Bhutan: Project Investment Number 7139, ¶6 (March 2004).



ADB's equity investment as a shareholder of BNB was for about five years, from 1998 to 2003, though ADB's full divestment was not completed until December 2006. The ADB's project completion report rated the project successful.<sup>33</sup> It assessed that the Bank's equity investment met the objective of establishing a 'sustainable and accredited financial institution' in the country and stated that with ADB's participation, BNB enhanced competition in the country's financial sector by providing better and more responsive services for the private sector.<sup>34</sup>

As ADB had a nominee director in BNB's board of directors and ADB did not have a country office in Bhutan (ADB's resident mission in Bhutan was established in 2014), the ADB staff in the Bank's resident mission in Nepal was the nominee director. In the case of ADB's equity investments in CBL and GTB, the nominee director was usually a Bank staff from ADB's country office in New Delhi, India. This helped ensure that the Bank could play an active role in the investee company's board of director meetings even though, at times, the Bank was limited in its role as it was a minority shareholder. Through its nominee director, ADB played a developmental and advocate for change role by promoting good corporate governance practices in BNB.

Citicorp's role as a 'strategic investor' was brief, for about two years, and it divested its shares in BNB in May 2001, selling to two state enterprises, namely, Bhutan's National Pension and Provident Fund and Bhutan Trust Fund. Citicorp, as a strategic investor, was expected to play an active role in the management and corporate governance of BNB, but its role appeared to be more like a financial investor. The abrupt and unexpected exit of Citicorp after only two years of investment<sup>35</sup> posed a considerable problem for ADB on how it should better seek a strategic partner that was congruent with its interests. ADB as an IFI has a developmental role to play in its equity investment, while a 'strategic investor' is not a development institution but a commercial institution that is long-term in investment and that can provide the investee company direction and strategy. The subsequent parts will discuss the kind of interventions that ADB can ensure when having a strategic investor on board, and other issues that the Bank should consider.

## V. DOCUMENTS RELIED ON FOR THE STUDY

The salient lessons learned by ADB through the equity investments in these three commercial banks have been derived with reference to the project completion reports and evaluations made by the Bank's Independent Evaluation Department ('IED') on the Bank's involvement in equity investments. ADB has not carried out evaluation studies for the equity investments in CBL and GTB. However, it carried out an evaluation study of ADB's equity investment in BNB

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*, ¶31.

<sup>35</sup> *Id.*, ¶35.

in November 2010 through ADB's FISIF, which included the BNB equity investment.<sup>36</sup> This section also highlights suggestions on how the Bank can better enhance its participation in equity investment operations in its member countries.

This study in the following part also refers to the participation by the IFC in its investments in CBL, GTB, and BNB from various sources, including those made available by IFC. However, the IFC reports available are very limited in information and not helpful, and there is paucity on publication of reports, unlike ADB's reports (such as the Report and Recommendation of the President presented to the Bank's board of directors for approval of the equity investments, and the project completion reports which are made publicly available in accordance with the Bank's public communications policy). For example, in requesting information and documents on August 11, 2017, by e-mail for (i) IFC project number 7512 for Centurion Bank of Punjab Ltd India and (ii) IFC project number 7120 for Global Trust Bank India (such as whether divestment has been made and whether any report such as evaluation or summary document is available), the response was given two months after the request on October 13, 2017, and the information given for both requests was the same, "The project you requested, dates back to 1996. The publicly available information regarding your inquiry can be found in the following links: <https://disclosures.ifc.org/project-detail/SPI/7512/20th-century><sup>37</sup> [and] <https://disclosures.ifc.org/project-detail/SPI/7120/global-trust-bank-limited><sup>38</sup> [and] unfortunately, IFC does not disclose information about its divestments. Please note that publicly available information about IFC Investments and Advisory Services may be found at the following webpage: <http://www.ifc.org/projects><sup>39</sup> From this link you can sort by region, country, sector and/or keyword".<sup>40</sup>

It is surprising that no information on IFC's divestments in CBL and GTB can be disclosed as stated in IFC's e-mail of October 13, 2017. IFC states in its access to information policy that this policy reflects IFC's commitment to "enhance transparency about its activities, improve development effectiveness,

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<sup>36</sup> ASIAN DEVELOPMENT BANK, Independent Evaluation Department, Evaluation Study: Bhutan: Financial Sector Intermediation Facility and Equity Investment in Bhutan National Bank (2010); there was no requirement, until 2007, that an evaluation or validation report be prepared for each PSO by IED and in the case of PSOs, there have been other evaluation reports prepared such as special evaluation studies which focus on PSOs. See ASIAN DEVELOPMENT BANK OPERATIONS EVALUATION DEPARTMENT, Special Evaluation Study on Private Sector Development and Operations: Harnessing Synergies with the Public Sector (May 2007).

<sup>37</sup> IFC PROJECT INFORMATION & DATA PORTAL, Summary of Project Information Project Number 7512 for Centurion Bank of Punjab Limited, available at <https://disclosures.ifc.org/project-detail/SPI/7512/20th-century> (Last visited on January 20, 2022).

<sup>38</sup> IFC PROJECT INFORMATION & DATA PORTAL, Summary of Project Information Project Number 7120 for Oriental Bank of Commerce (November 6, 1995).

<sup>39</sup> All 3 three links accessed 12 September 2021, the first two links provided useful information on the banks while the third link was too generic and did not help.

<sup>40</sup> IFC's two e-mail replies of October 13, 2017 for both requests (CBL and GTB) have the same response as quoted above (on file).

and promote good governance”.<sup>41</sup> ADB has a similar policy called the Public Communications Policy, 2011, which commits the Bank to equal information access for all, recognising the right of people to seek, receive, and share information. ADB provides information including divestment of its equity investments through reports sent to the board of directors for approval of equity investments, project completion reports and evaluation reports which are made publicly available subject to redaction in line with confidential business information and other exceptions in its public communications policy, as well as through e-mail responses. IFC is not allowed to disclose board documents or papers relating to specific investments or advisory services projects under paragraph 11(a)(ii) of its access to information policy.

Information and documents were also requested for IFC project number 30510 for BNB by an e-mail of August 10, 2017, such as whether IFC was also providing advisory services to BNB in addition to the equity investment and if IFC had divested all of its shares under this investment, including a request for investment report or completion report or any other relevant report available (similar to requests for CBL and GTB), but on December 5, 2017, an e-mail from IFC stated a response to this request would be sent “shortly”.<sup>42</sup> The author found two links on IFC’s website on IFC’s equity investment in BNB and its advisory service to BNB.<sup>43</sup> Under IFC’s access to information policy, documents prepared by IFC before January 1, 2012, are subject to the IFC disclosure of information policy in effect at the time of document preparation.<sup>44</sup> There is a requirement under the IFC policy that written requests for information would be responded to within thirty calendar days of receipt, and if additional time is needed, IFC will contact the requester and explain the reasons for the delay and if possible will provide an estimated time frame for the response.<sup>45</sup> Four months were taken for a reply to be given, and the estimated time frame for response requirement was not provided in IFC’s e-mail reply of December 5, 2017, which read, “A response would be sent shortly” and no response was received.

<sup>41</sup> IFC Access to Information Policy, 2012, ¶3.

<sup>42</sup> IFC’s e-mail dated December 5, 2017 from IFC Corporate Relations (on file) stated, “Thank you for contacting IFC. We apologize for the delay in responding to your inquiry, a response will be sent to you shortly”.

<sup>43</sup> IFC PROJECT INFORMATION & DATA PORTAL, BNB Bhutan: Summary of Investment Information Project Number 30510 for BNB, available at <https://disclosures.ifc.org/project-detail/SII/30510/bnb-bhutan> (Last visited on January 20, 2022); IFC Project Information & Data Portal, BNB Bhutan Phase II: Summary of Advisory Services Project Information Project Number 602068 for BNB Phase II, available at <https://disclosures.ifc.org/project-detail/AS/602068/bnb-phase-ii> (Last visited on January 20, 2022).

<sup>44</sup> IFC Access to Information Policy, 2012, ¶5 (Under this policy, there is a presumption in favor of disclosure of information consistent with IFC’s responsibilities in making available information on its activities that would enable members of the public and other persons understand better about IFC’s business activities in the absence of a compelling reason not to disclose such information. An example of the same is, if the information falls within the exceptions in ¶11 of the policy such as confidential information).

<sup>45</sup> *Id.*, ¶57.

In EBRD's public information policy, the process for response is clearer and time-bound. If there is no response within twenty working days from the date of receipt of the request for information, or if a timely explanation for a further delay is provided, the EBRD will "respond no later than forty working days".<sup>46</sup> In contrast to IFC's responses, ADB's responses to requests for information were prompt, helpful, and time-bound; significantly, there are documents available such as project reports and completion reports with the redaction in accordance with the institution's public communications policy. Other information on IFC's investments and activities in CBL, GTB, and BNB has been obtained from the internet and other sources such as IFC press releases.

## VI. LESSONS LEARNED BY THE ASIAN DEVELOPMENT BANK

There are four key lessons learnt by ADB from the equity investments in CBL, GTB, and BNB. First, a flexible timeline for divestment allowing for an exit at the 'right time' is more appropriate than a rigid timeline. Second, effective project monitoring by means of a corporate governance code or through the active participation of a nominee director can be crucial in fulfilling ADB's developmental role. Third, finding an appropriate strategic investor who will stay committed to the project for the long term is a challenging but important task for ensuring the success of the project. Finally, there are synergies to be gained in terms of developmental impact through complementary activities or investments by other IFIs.

### A. *TIMELINE FOR DIVESTMENT*

The timing of ADB's exit from equity exposure in CBL where ADB considered looking at its exit strategy policy "in a progressive manner within twelve to eighteen months of the listing of equity, should ADB's stated objective be seen as achieved".<sup>47</sup> Notwithstanding this conclusion reached in the project completion report in 2001, ADB proceeded to make an additional equity investment in CBL in 2001 and viewed that if "a strategic investor is difficult to find, ADB is likely to sell its holding gradually over the next five years, through the stock exchange".<sup>48</sup> On ADB's website, it is stated:

"Once the objective of its investment has been achieved, ADB will divest its shares at a fair market price. Facilitating this divestment may require the eventual listing of the shares of the

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<sup>46</sup> EBRD Public Information Policy, 2014, Annex ¶2(vi).

<sup>47</sup> ASIAN DEVELOPMENT BANK, Project Completion Report for Centurion Bank Limited: Project Investment Number 7103, ¶27 (December 2001).

<sup>48</sup> ASIAN DEVELOPMENT BANK, Report on the Approval by the President of an Additional Equity Investment under a Rights Issue in Centurion Bank Limited in India: Project Investment Number 7103, ¶15 (February 2001).

investee enterprises on one or more stock exchanges, conducting a trade sale or entering into a suitable buyback agreement. In general, ADB prefers to sell shares to the nationals of the host country to broaden local ownership and further develop local capital markets. When disposing of its shares, ADB will endeavour to consult with its major investment partners and give due consideration to their views, without being precluded from disposing of its investments at its sole discretion".<sup>49</sup>

For IFC, it is stated that its exit of equity investment without giving a specific timeline is in line with IFC's goal of helping "the client reach a high level of sustainability that will continue long after IFC's involvement has ended".<sup>50</sup> For EBRD, the policy is that the institution usually exits within four to eight years of the initial investment, varying from project to project. The EBRD's exit strategy typically involves selling its participation to the project sponsors or selling the investment via a public offer.<sup>51</sup>

In the case of CBL, the Bank's additional investment was justified on the ground that the Bank demonstrated its catalytic developmental role as CBL was still one of the smallest banks in India, and it needed further assistance. Additional investment could attract other shareholders, lend stability to CBL, and help CBL to raise additional capital. ADB divested its investment in CBL in 2005,<sup>52</sup> about eleven years after its first investment in 1995. It is submitted that the appropriate approach to exit, as adopted by the ADB, is when the institution deems it is the 'right' time to do so with the proviso that divestment should be supportive of the investee company in line with the institution's mandate and there is adequate governance of the divestment process. Having a time frame like in EBRD's case may be useful as it gives specificity, but in many cases a timeline may not necessarily be the right answer for exiting during unsuitable market conditions, as there would be more reason for the institution to retain its investment to promote investor confidence. The subject of equity investment and exit from equity investment by IFIs has been recently discussed in a 2017 study commissioned by IDB and by the Inter-American Investment Corporation ('IIC'). This multilateral investment institution is an independent affiliate of the IDB Group, which invests in private projects, either directly or through equity funds. The study highlighted the importance of adequate governance of the divestment process by IFIs such as ADB, IFC and EBRD. It recommended that IIC generates a commitment to equity investment

<sup>49</sup> ASIAN DEVELOPMENT BANK, *Private Sector (Nonsovereign) Financing*, available at <https://www.adb.org/what-we-do/private-sector-financing/financial-products> (Last visited on January 20, 2022).

<sup>50</sup> INTERNATIONAL FINANCE CORPORATION, *IFC Project Cycle*, available at [https://www.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/solutions/ifc-project-cycle](https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/solutions/ifc-project-cycle) (Last visited on January 20, 2022).

<sup>51</sup> Guide to EBRD Financing (September, 2013).

<sup>52</sup> E-mail response from ADB dated September 6, 2017 to the author's request for information on whether ADB was still investing in CBL (on file).

financing over the next ten years typically with five-year investment and five-year divestment periods.<sup>53</sup> The rider in the recommendation is ‘typically’ as at the end of the day, it is not easy to apply a straitjacket principle, and there is a need to be adaptive given the institution’s development mandate and the performance of the specific investee company. In CBL, ADB took about eleven years before exiting its equity stake in 2005. In GTB, ADB divested after about seven years in 2000 and in BNB, ADB divested after about eight years in 2006 with full divestment.

### *B. EFFECTIVE PROJECT MONITORING*

Effective project monitoring by staff to get positive results for the Bank in its catalytic and developmental role is an important lesson learned. An example is the GTB which was the first Bank in India to have a good corporate governance code (which was emulated by other banks in India). This required rigorous monitoring and dedicated bank staff (either in the Bank headquarters or in the country office as they are nearer to the ground and able to respond effectively and also attend board of directors meetings by virtue of the Bank being entitled to have a seat in the board of directors). The PCR for GTB (redacted version provided by the Bank for the reasons given above) does not have information on the formal rating, but it appears ‘satisfactory’ as stated by IED in its special evaluation study and its review of the PSOD’s PCR for this project which recorded a high Financial Internal Rate of Return (‘FIRR’) of 39.4 percent and stated that the issues were “ADB played a significant role in strengthening governance. The strategy was compatible with management capacity. Effective IT systems improved risk management”.<sup>54</sup>

For BNB, the Bank staff as nominee director played an active role. This had an impact resulting in BNB’s development of a credit manual and strengthening an ethics policy for the board of directors as well as BNB’s audit policies and procedures. ADB did not have a country office in Bhutan then, and the ADB Nepal country office close to Bhutan was chosen to handle the administration of the Bank’s equity investment in Bhutan on the nominee directorship as well as attend shareholder meetings.

### *C. FINDING A STRATEGIC PARTNER*

Finding a strong strategic partner for CBL and, in the case of BNB, the unexpected exit of Citicorp as a strategic investor two years after its investment were problematic issues. One is that any IFI like ADB, EBRD or IFC has limited resources, and they do not take long-term equity investments or controlling

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<sup>53</sup> OFFICE OF EVALUATION AND OVERSIGHT, *Comparative Study of Equity Investing in Development Finance Institutions*, 13 (2017).

<sup>54</sup> ASIAN DEVELOPMENT BANK OPERATIONS EVALUATION DEPARTMENT, *Special Evaluation Study on Private Sector Development and Operations: Harnessing Synergies with the Public Sector*, 76 (May 2007).

interests, nor do they assume direct responsibility for managing the project or investee company. To find a 'strategic partner' or 'strategic investor' is not easy and would require ADB or any other IFI to exercise more due diligence in finding the 'right' entity to give direction to the company in view of the IFI's limited duration for investment and with its minority position.

On ADB's investment in BNB, IED highlighted the dissonance between ADB's desire for a high rate of return – 39.5 percent FIRR is given in the PCR and IED computed a high FIRR as well – and ADB's desire to influence development outcomes in Bhutan. IED also highlighted that while ADB deserved credit for insisting on divesting its shares to the public rather than to RGoB and public sector agencies, its attempt to have Citicorp as the strategic investor in ADB's attempt to privatise BNB did not succeed as Citicorp sold its shares to two-state enterprises. ADB's IED candidly stated that Citicorp's divestiture of its shares in May 2001, after a two year investment, and selling to two state enterprises, was a disappointment to ADB.<sup>55</sup> Citicorp's early exit, two years after its investment, in contrast to ADB's exit eight years after its investment, is stark, given that Citicorp was a strategic investor, and if it had not come in as a strategic investor, ADB's investment would have been higher (it was reduced to about twenty percent with Citicorp coming on board). This also makes ADB's role as 'trusted advisor to RGoB' challenging as during the period of rapid institutional change in Bhutan in the late 1990s and early 2000s in the financial sector, its advice on the financial sector was influential.<sup>56</sup>

IED noted Citicorp sold its shares without notifying ADB although the shareholders' agreement specified that notification was required that ADB did not take any legal action against Citicorp and that "In future ADB should endeavor to obtain stronger assurances from any private sector partner in similar circumstances".<sup>57</sup> IED gave credit to the Bank for insisting on divesting its shares to the public rather than the GOB and public sector agencies (as was the case in Citicorp's divestment). IED's advice was that if in the future ADB were to bring a private sector into the deal to facilitate capacity development, ADB should only go with a strategic investor with relevant banking experience who would remain a long-term shareholder, thereby playing an active role in the management and corporate governance of the investee company rather than just being a financial investor.<sup>58</sup> This advice is laudable, and the real challenge is in finding the right entity as a 'strategic investor' and having appropriate safeguards placed in an enforceable legal agreement.

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<sup>55</sup> ASIAN DEVELOPMENT BANK INDEPENDENT EVALUATION DEPARTMENT, Evaluation Study: Bhutan: Financial Sector Intermediation Facility and Equity Investment in Bhutan National Bank, ¶41 (2010).

<sup>56</sup> *Id.*, ¶52.

<sup>57</sup> *Id.*, ¶41.

<sup>58</sup> *Id.*, ¶73.

#### D. COMPLEMENTARY ACTIVITIES BY INTERNATIONAL FINANCIAL INSTITUTIONS

Complementary activities by IFIs with similar development mandates can help advance development impacts, as in the case of IFC's equity investment in BNB and provision of advisory services after ADB's divestment in 2006. In 2013, IFC made an equity investment of about USD 29 million in BNB of about twenty percent of BNB shares to help BNB expand its capital base and increase lending to small and medium enterprises and rural markets and that IFC would also advise BNB on adopting international best practices in areas of risk management and corporate governance.<sup>59</sup> This was IFC's first investment in Bhutan which joined IFC as a member country in 2003. Through this investment, IFC would provide BNB with "access to international best practices in the areas of information technology ('IT'), risk management and governance" as well as "facilitate further reduction of effective government ownership in BNB, thereby supporting the transition of Bhutan's banking system to majority private sector participation".<sup>60</sup> In April 2016, BNB announced that it would be buying back its shares from IFC subject to approval from Bhutan's central Bank, shareholders and the economic affairs ministry, and IFC is still advising BNB in areas such as risk monitoring and corporate management.<sup>61</sup> In January 2018, IFC issued a summary of advisory services project information for 'BNB Phase II' stating it would provide advisory assistance to BNB to enhance the internal audit ('IA') framework of the institution. This would be done by including a risk perspective in the design and execution of IA along with developing IT audit methodology and IT strategy, with the project estimated to start in February 2017 and end in December 2018.<sup>62</sup>

IFC's equity investment in BNB and provision of advisory services made seven years after ADB's disinvestment demonstrate that IFI equity investments and related advisory services can also fulfil the common catalytic, developmental impact, and additionality principles advanced by these two IFIs in making equity investments. Joint participation in equity investments is also positive as they usually attract both international and domestic investors to have the confidence to invest in the investee company, and perhaps take on a strong role such as that of technical partner or strategic investor. Illustrative examples for the same

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<sup>59</sup> INTERNATIONAL FINANCE CORPORATION, *IFC Invests \$28 Million in Bhutan National Bank to Promote Inclusion, Small Businesses*, March 15, 2013, available at <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=16173> (Last visited on January 20, 2022).

<sup>60</sup> IFC PROJECT INFORMATION & DATA PORTAL, BNB Bhutan: Summary of Investment Information Project Number 30510 for BNB, available at <https://disclosures.ifc.org/project-detail/SII/30510/bnb-bhutan> (Last visited on January 20, 2022).

<sup>61</sup> KUENSEL ONLINE, *IFC Pulls out Half of its Shareholdings with BNBL*, April 6, 2016, available at <https://kuenselonline.com/ifc-pulls-out-half-of-its-shareholdings-with-bnbl/> (Last visited on January 20, 2022).

<sup>62</sup> IFC PROJECT INFORMATION & DATA PORTAL, BNB Bhutan Phase II: Summary of Advisory Services Project Information Project Number 602068 for BNB Phase II, available at <https://disclosures.ifc.org/project-detail/AS/602068/bnb-phase-ii> (Last visited on January 20, 2022).



are the National Commercial Bank in Albania, where both EBRD and IFC invested EUR two million each, with each entity having about twenty percent of the share capital of the company.<sup>63</sup>

The evaluation study report states that “by selling its shares and giving up its seat on the board of BNB, ADB may have lost a special window on the financial sector in Bhutan and a lever for reform that may now pass to the World Bank or the International Finance Corporation”.<sup>64</sup> The author submits that this ‘special window’ may not be the appropriate reference if the special window is measured with the possibility that reform may now pass to the World Bank or the IFC. These institutions have the same mandate – poverty reduction for the country’s economic development – and the synergies brought by these IFIs working and collaborating together outweighs any notion that a special window was lost.

ADB had stated in the project report that it could exit from BNB within four years by selling its shares on the Bhutan Royal Securities Exchange, but it exceeded this period, and in the 2004 project completion report, it recommended that the Bank sell its shares through the stock exchange as soon as it could get a reasonable return at the prevailing market price (and in 2006, ADB did get a high return of 39.5 percent FIRR). Importantly, ADB found that its equity investment had served the purposes for which it was made, and lessons were learned on the problems in establishing a new commercial bank in a small developing country such as Bhutan, particularly in finding a suitable strategic investor. In the case of BNB, IFC has found that there is still a strong need for the provision of advisory services to build BNB’s capacities in risk management, strategy and business planning for the micro, small and medium enterprise sector as well as IT business integration and management information system strategy.<sup>65</sup> The interventions by IFIs have a long-term development effect in that IFIs consider their participation and investment would increase the interest of local and other foreign investors in the country, help the economic development of the country, and encourage more private sector participation. Both institutions could share lessons learnt through their individual experiences—through cooperation and collaboration—and learn more from each other as a valuable footprint for IFIs in their engagement in PSOs in developing member countries. Lessons have been learnt and are still being learnt by ADB and IFC in their equity investment experiences in CBL, GTB, and BNB from the mid-1990s to the present, and IFC is still actively engaged in BNB with its ongoing advisory services.

<sup>63</sup> EBRD, Project Summary Document for National Commercial Bank Albania (December 20, 1999); IFC, *Summary of Project Information for National Commercial Bank Albania* (January 4, 2000).

<sup>64</sup> ASIAN DEVELOPMENT BANK INDEPENDENT EVALUATION DEPARTMENT, *Evaluation Study: Bhutan: Financial Sector Intermediation Facility and Equity Investment in Bhutan National Bank*, ¶41 (2010).

<sup>65</sup> IFC Project Information & Data Portal, BNB Bhutan: Summary of Investment Information Project Number 30510 for BNB, available at <https://disclosures.ifc.org/project-detail/SII/30510/bnb-bhutan> (Last visited on January 20, 2022).

## VII. SUGGESTIONS FOR THE ADB

ADB's investments in CBL and GTB in India, and BNB in Bhutan, demonstrate the catalytic role which such equity investments can have for the economies of developing nations. While important lessons have been learnt from these particular investments, as outlined above, it is also suggested that ADB can better enhance its participation in private equity investments in its member countries in several other ways. First, its preparation of project completion reports (in addition to the project reports sent to the board of directors for approval of the PSOs, including equity investments). In 2007, ADB's evaluations department noted that "to date, only a few PCRs have been prepared for PSOD projects" and that the evaluations department had prepared only thirteen Project Performance Evaluation Reports (PPERs) for private sector projects together with one special evaluation study on private funds.<sup>66</sup> It noted that this level of self-evaluation (by PSOD) and independent evaluation (by the evaluations department, which reports to the Bank's board of directors and not to the Bank's management) is insufficient.<sup>67</sup> Starting from 2014, all new approvals have been required to report results regularly,<sup>68</sup> and this complements the reporting of results of completed transactions through Extended Annual Review Reports ('XARRs') prepared by PSOD, and they serve as key inputs in IED's subsequent in-depth PPERs and other studies such as special evaluation. The XARRs are a tailored form of the project completion report to review non-sovereign operations, including equity investments, and is to be conducted once in the lifetime of each project in the ADB portfolio when the project is sufficiently mature for evaluation.<sup>69</sup>

Second, in the case of the project completion report for CBL prepared in 2001, the Bank made an additional equity investment in 2001, which it divested in 2005 – no project completion was prepared for this additional equity investment. A separate completion report or a follow-up could have been made given that the project had not been completed until 2005, when the divestment was made. Any lessons learnt could be incorporated as the project was sufficiently mature for evaluation.

Third, ADB continues its cooperation and collaboration with other IFIs with similar development mandates, such as IFC, EBRD, and IIC, in specific areas such as exit strategy in equity investments. This is done so that the approach taken by a specific entity like IIC in ring-fencing its commitments to equity

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<sup>66</sup> ASIAN DEVELOPMENT BANK, OPERATIONS EVALUATION DEPARTMENT, *Special Evaluation Study on Private Sector Development and Operations: Harnessing Synergies with the Public Sector*, 120 (May 2007).

<sup>67</sup> *Ibid.*

<sup>68</sup> ASIAN DEVELOPMENT BANK, *DEVELOPMENT EFFECTIVENESS REPORT 2016: PRIVATE SECTOR OPERATIONS*, 9 (2017), available at <https://www.adb.org/sites/default/files/institutional-document/300751/defr-private-sector-2016.pdf> (Last visited on January 20, 2022).

<sup>69</sup> ASIAN DEVELOPMENT BANK, *EXTENDED ANNUAL REVIEW REPORTS FOR NON-SOVEREIGN OPERATIONS: PROJECT ADMINISTRATION INSTRUCTIONS PAI 6.07B*, ¶3 (February 2017).

financing can provide valuable input for ADB to consider in its equity operations if ADB revisits its exit strategy. ADB's evaluations department recommended ADB's PSOD strengthen its business development function by considering the business procedures of other IFIs focused on PSOs, specifically citing IFC and EBRD. An example cited was IFC's and EBRD's business development approaches where IFC has many local offices, and EBRD has a substantial portion of staff located in local offices where they perform mainstream PSO business activities. ADB's evaluations department highlighted that in practice, PSOD staff from headquarters almost exclusively handle PSOs, and it recommended that resident missions be staffed with professionals who have PSO skills, as they can take the lead in PSO business development.<sup>70</sup> The author also suggests that ADB sets up more resident missions so that these new country offices would be able to perform PSO business development functions rather than having to rely on a nearby ADB country office.

Finally, ADB can explore co-financing possibilities with more IFIs in addition to IFC and the recent joint co-financing by three IFIs in the Adjaristsqali Hydropower Project – IFC, EBRD, and ADB – is illustrative of the synergies and enhanced development impacts that lie ahead for future co-financed private sector projects, including equity investments. This private-sector project represents ADB's first private-sector loan for the development of Georgia's energy sector as well as the first non-sovereign co-financing by ADB, EBRD, and IFC in Georgia's energy sector. Under this project, IFC acts as the lead arranger of the financing and is joined by ADB and EBRD as parallel lenders. IFC provided a loan and equity, while ADB and EBRD were lenders.<sup>71</sup> IFC and EBRD have had many projects where both have provided equity investments, e.g., National Commercial Bank in Albania in 2000, and more opportunities lie ahead for ADB to consider co-financing with other IFIs or development partners when financing equity investments.

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<sup>70</sup> ASIAN DEVELOPMENT BANK, OPERATIONS EVALUATION DEPARTMENT, *Special Evaluation Study on Private Sector Development and Operations: Harnessing Synergies with the Public Sector*, 115 (May 2007).

<sup>71</sup> IFC PROJECT INFORMATION & DATA PORTAL, Summary of Investment Information Project Number 33435 for Adjaristsqali Georgia LCC, available at <https://disclosures.ifc.org/project-detail/SII/33435/adjaristsqali-georgia-lcc> (Last visited on January 20, 2022).